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Report Highlights:

Yugoslav poultry meat consumption will increase in 2003, primarily as a result of increase in consumer incomes. Production and imports will increase as well, following consumption. The main exporters of poultry meat to Yugoslavia will remain Hungary and Slovenia, while U.S. poultry exports will depend on the decision of Yugoslav Veterinary Service to accept USDA/FSIS Export Certificates. If the Yugoslav government accepts the certificates, U.S. poultry can be competitive, provided that marketing efforts focus on the health and safety issues. Many Yugoslav consumers have the mistaken belief that U.S. poultry is treated with hormones and harmful antibiotics.

Includes PSD changes: Yes

Includes Trade Matrix: No

Unscheduled Report

Sofia [BU1], YI

Executive Summary	Page 2 of 12
Production	Page 2 of 12
Selected Prices of Poultry Meat and Eggs, August 2002	Page 6 of 12
Trade	Page 6 of 12
Import duties	Page 7 of 12
Stocks	Page 8 of 12
Marketing	Page 8 of 12
Montenegro Tests the Water with Independent Customs Code	Page 9 of 12
PSD Table Poultry, Meat, Total	Page 10 of 12
Import Trade Matrix Poultry Meat, Total	Page 11 of 12
Prices Table Poultry	Page 12 of 12

Executive Summary

Due to high production costs, a severe shortage of bank credit, and reduced domestic demand over several last years, Yugoslavia's total poultry meat production declined from 85,000 MT in 1999, to only 71,000 MT in 2001. Total production in 2002 will be 70,000 MT, while for 2003, AgBelgrade estimates an increase in poultry production by 6 percent to 75,000 MT. Since Yugoslavia has very limited exports of poultry--only to Bosnia and Herzegovina--nearly all of Yugoslavia's poultry production is consumed domestically. Poultry meat consumption is expected to increase in MY 2003 primarily as a result of a rise in incomes. Poultry imports are also expected to rise in MY2003 to 10,000 MT, due primarily to strong marketing campaigns by companies from Hungary and Slovenia.

Note: As of the writing of this report, the Federal Republic of Yugoslavia (FRY) includes the Republic of Montenegro and the Republic of Serbia. Further, the Republic of Serbia legally includes the provinces of Vojvodina and Kosovo. However, on a practical level, there are three separate customs zones with different regulations:

- Federal Republic of Yugoslavia or FRY, but only implemented in the Republic of Serbia (Including Vojvodina, but not Kosovo).
- Republic of Montenegro.
- Kosovo Province where the UN together with the local government has established some customs and tariff codes.

Thus, "Yugoslavia" or "FRY" schedules and tariffs are only being applied in the Republic of Serbia at present. End Note.

Production

Increase Expected in 2002, but Still Well Below 1999 Levels

The poultry industry in Yugoslavia is currently restructuring following privatization and social reforms. Most of the current production is located in the northern part of the country extending from Belgrade to the border with Hungary and in Central Serbia (Jagodina, Valjevo).

From the nine state owned large poultry farms and slaughterhouses operating 10 years ago in Serbia, only two are still functioning today, while seven are bankrupt and closed. But even with closing of the state owned poultry farms, Yugoslavia has never experienced an extended shortage of poultry meat due to the creation of thousands of small private farms. Many of them are producing and selling poultry illegally without paying taxes to the state. This production of fresh poultry is unofficially called "garage production" in Serbia.

Due to high production costs, a severe shortage of bank credit, and reduced domestic demand, Yugoslavia's total poultry meat production started to decline sharply: from 1999 when 85,000 MT were produced, to just 71,000 MT in 2001. AgBelgrade estimates total production in 2002 to fall slightly to 70,000 MT. For 2003, AgBelgrade is predicting a slight rebound by 6 percent to 75,000 MT. Producers will respond to the increase in poultry meat demand that results from a rise in incomes and pensions.

Production of total poultry meat, eggs and products in Yugoslavia will increase in 2003 compared to 2002 as a result of:

- 1) lower feed prices;
- 2) increased private investment in poultry industry;
- 3) better usage of existing production by private companies, which have in some cases leased closed state owned companies to expand production.

Poultry meat production increased in the first part of 2002, due to favourable consumer demand for a lower-priced protein source, compared to pork and beef. Production is expected to decline slightly, however, for the remainder of the year, as prices have fallen which will lead to a reduction in supply.

In general, Yugoslavia does not have well integrated poultry production systems. Only about 35 percent of poultry meat is produced on large intensive units (two large companies, one private and one state owned) and the remaining 65 percent of poultry meat is produced on small privately owned farms. Both private and state owned companies are constrained by severe credit shortages, high production costs, and lack of veterinary pharmaceuticals. Private farmers are trying to reduce costs by purchasing and importing low-quality chicks, blending feeds on farms, and doing their own slaughtering and retailing. Only about 30 percent of private production is sold on the commercial retail market, the rest is consumed on-farm.

The commercial sector is responsible for the production of approximately 1.2 million birds per week or approximately 70,000 MT of processed poultry per year. With a population of 8.5 million, average annual per capita consumption of commercial broilers is between 7 and 8 kilos. Supply of poultry meat currently exceeds demand and prices of poultry have fallen, beginning in June 2002, reaching record low levels in mid-July 2002.

Grow-out periods and average weights differ depending on sectors, but are generally internationally competitive. In large-scale operations, the grow-out period averages about eight weeks and the average weight is about 1.6 kilograms. Small private farmers tend to feed their chicks longer, resulting in higher average weights (more than 2 kilograms).

Of the total poultry production in Serbia, 35 percent of the production, i.e. 20,000 MT per year, is produced by two large companies, one state owned and one privately owned, both located in Vojvodina.

The large state owned company is successfully operating and has also leased idle capacity of closed state companies. This single state company accounts for 15 percent of the Yugoslav chicken meat production, produces from its own parent stocks, and has a slaughterhouse with a daily slaughter capacity of 20,000 birds. It also works on a contract basis with large number of small private farmers.

The second largest broiler producer in Yugoslavia is large private company located South-East Vojvodina that accounts for 20 percent of the entire chicken meat production of Yugoslavia. The company uses a wide variety of parent stocks; has a diversified product line including day-old chickens and broilers; slaughters its own production; produces processed meat products; and, has its own retail stores. Its current production cycle includes over 2 million broilers on 6 farms of 200,000 broilers each and the remainder in smaller farms. Over 60 farmers raise chickens with the company's feed and other inputs. It has purchased or rented many state-owned poultry producing companies and farms and is currently producing 1 million broilers per year. Poultry meat and products produced by these two companies are regularly offered for sale in supermarkets.

Another 50,000 MT, or 75 percent of poultry production per year is produced by medium and small private poultry farms that very often are not registered. Many of those farms are located in Central Serbia, with up to 20 small farmers working as contractors with an average production of 10-20,000 broilers per production cycle. Grow out periods for broilers from these farms averages about 50 days.

Of the total poultry production in Yugoslavia, 85 percent of poultry production is in private hands, while another 15 percent is produced on state owned farms. Of the total production of 70,000 MT, fifty percent or 35,000 MT, is produced in "garage operations". This small farm production has filled the gap after the closing of huge state owned farms and is the main reason that official statistics are not reliable: AgBelgrade adjusted for type production by raising Serbia's official production estimate by approximately 50 percent.

Large private producers command a 40 percent market share. Three smaller companies, accounting for an additional 20 percent of the market, and are based in Vojvodina and Central Serbia and are selling products mainly in their own retail shops. Their processing facilities for chicken meat have a capacity of 24-26 MT/day and produce a wide range of salami, pate, smoked chicken, and chicken cuts in various forms. Currently, the plants are operating at 60 to 70 percent capacity, due primarily to the low purchasing power of Yugoslav consumers and the lack of export opportunities. The companies also have their own retail stores and also supply other large retailers throughout the country.

Commercial turkey meat is produced only by one company in Jagodina in Central Serbia, a region traditionally known for turkey production. The company is privately held and produces 100,000 turkeys annually with a carcass weight of 12-15 kilos. In North Vojvodina towards the Hungarian border there is also traditional production of turkey in small private farms, mainly for on-farm consumption.

Substantial investment is needed in order to replace old equipment and to modernize production technology in Yugoslav poultry production. In the next several months, bankrupt, state owned poultry farms will be privatized. Private farmers often use improvised self-produced equipment for their small-

scale production and are also looking for foreign investment.

There is no Government policy encouraging poultry production in Serbia/Montenegro. Since 1992, all subsidies have been removed. Bank credit is still unfavourable with high interest rates.

Eggs: The commercial egg industry produces 90,000 MT of eggs annually corresponding to 125 million dozen representing an annual per capita consumption of 150 eggs. Before the war and economic sanctions, Yugoslavia had consumption of over 200 eggs per capita annually. Using a nominal value of 300 eggs per hen over each production cycle, the commercial flock comprises 5 million hens in production. Production of hatching eggs and day-old chicks is also increasing in 2002 compared to previous years (2000 and 2001) in response to increased demand for both layer and broiler stock.

Egg production in Yugoslavia is located throughout Serbia. Despite high feed grain prices in 2000 and 2001, the production of eggs increased in response to higher consumer demand. Prices have weakened, however, throughout the summer indicating that the further increases in production will require greater income gains to support demand. There are eight major producers located throughout Serbia, of which two are quite large, while another six are smaller with 100,000 to 200,000 hens. Small private plots account for 80 percent of all egg production, while large farms are producing 20 percent of the egg production in the country.

Consumption: Currently only 8 Kilos Per Capita, but Increasing

Consumption of poultry meat, eggs and products increased slightly in 2002 with better quality available at lower prices. Per capita poultry meat consumption in 2002 will reach about 8 kilograms, while projected per capita beef and pork consumption (more traditional meats in Yugoslavia) average 11 and 12 kilograms, respectively. The BSE crisis in Europe did not have a significant impact on consumer meat preferences for poultry meat vs. beef and pork. This is due primarily to the confidence of consumers in domestic meat production, but also due to the low awareness of Yugoslav consumers about BSE problems in Europe.

Consumption of poultry meat in Yugoslavia before 1990 was between 12 and 14 kilo per capita, but fell drastically in 1992-1994 during the most difficult time for Yugoslav economy, during the United Nations economic sanctions. Average annual incomes in Yugoslavia fell sharply during this period. Since 1995, however, per capita consumption of poultry meat has increased every year and reached 8 kilos per year 2002. Despite the recent increase, consumption is quite low compared to per capita poultry consumption in Western Europe (30 kilos) and United States (45 kilos).

Yugoslavian consumers generally do not have specific preferences regarding the type of poultry meat: dark versus light. However, consumers prefer whole chicken or large cuts as chicken leg quarters or chicken halves. Processed poultry products such as bologna and frankfurters are available in Yugoslavia's shops. For most consumers the prices are prohibitively high. Incomes are slowly improving which will lead to an increase in poultry and egg consumption. Sales of further processed chicken and eggs products will also expand and at a rate faster than whole bird or poultry cuts.

Eggs: Yugoslavia has not yet developed a processed egg products industry as ninety-five percent of total consumption is "in shell" form. Processed egg products are still very rare in Yugoslav shops and supermarkets. Consumers in open food markets purchase about 80 percent of all shell eggs produced in Yugoslavia. Another 20 percent are sold through retail stores. Per capita egg consumption in 2002 is projected to be 125 eggs per year, significantly below annual consumption of 210 eggs per year in 1992.

Selected Prices of Poultry Meat and Eggs, August 2002

Item	Retail Prices:	Supermarkets/Open markets prices:
- broiler	95 din/kilo	100-120 din/kg
- breast, bone-in	142 din/kilo	175-185 din/kilo
- breast, deboned	175 din/kilo	390-420 din/kilo
- livers	45 din/kilo	55-60 din/kilo
- leg quarters	131 din/kilo	160-170 din/kilo
- wings	95 din/kilo	100-120 din/kilo
- eggs	2-3 din/kilo	2.5-3.5 din/dozen

Exchange rate: 1 USD = 61 dinars

Trade

Imports Increasing, but Lack of Certificate Prohibits U.S. Exports

Imports of poultry meat in 2002 have increased slightly due to the signing of the Free Trade Agreement with Slovenia and the resulting increase in imports from other West European countries (whole-broilers, mostly frozen). Imported poultry is slightly more expensive (123 dinars/kilo) than domestic. Imports of U.S. poultry meat were suspended in 1999; the Yugoslav Veterinarian Office is not accepting USDA/FSIS Veterinary Export Certificate. U.S. poultry (and poultry from other origins) is entering Yugoslavia through illegal channels from Kosovo and Hungary and is mainly sold in South Serbia (Nis) and North Vojvodina at the Yugoslav-Hungarian border. The origin of the product is not identified, has no veterinary inspection, and is usually smuggled. Montenegro also does not officially permit imports of US poultry meat, but has allowed derogations to its general policy.

From 1999 until November 2000, the price of chicken meat was fixed at 31 dinars or 0.74 EUR/kg, while production costs were 1 EUR/kilo. In November 2000, prices of poultry meat were liberalized and rose quickly to 123 dinars/kilo. During 2001 prices of poultry have risen by 20 percent compared to 2000, while in 2002 prices returned to the level of year 2000, due to excess supply.

Total Yugoslav imports of poultry products in 2001 from all origins were 7,042 MT, valued at \$6,937,000, almost double that of 2000. For the period January-June 2002, 4,837 MT were imported, valued at \$3,527,000. The main countries that are exporting poultry to Yugoslavia are Slovenia, Hungary, Greece, and The Netherlands.

Officially, imports have been liberalized without any licenses and quotas, with a customs tariff of 30.5% on the invoice value of the imported goods and additional import tax depending on the type of product. Domestic production has strong support from Federal and Republican officials and further liberalisation of the tariff regime is not expected. WTO accession negotiations, however, may bring about a reduction in bound tariff levels. Accession negotiations began in the summer of 2002.

Total exports of poultry products from Yugoslavia were insignificant and went mainly to Bosnia and Herzegovina (BIH): 534 MT in 2001, valued at \$497,000, almost the same as in 2000. For the period January-June, 2002 Yugoslavia has not exported any poultry meat. Yugoslavia currently does not meet EU standards and is not permitted to export poultry meat to EU members. According to the Yugoslav legislation, poultry can be fed fish and bone meal, a practice prohibited in EU countries. Until legislation is passed to implement the EU directives prohibiting this practice, Yugoslavia will remain unable to export poultry meat to EU members.

U.S. companies interested in poultry production can come to the Yugoslav market as investment partners with current poultry producers. Two large poultry producers in Yugoslavia have expressed interest in technical assistance and modern production and processing equipment. These companies are also interested in importing cuts and MDM for their processing facilities.

Import duties

Poultry meat import tariffs are 30 percent plus 0.5 percent as a customs fee. There is an additional import tax between 21-34 din/kilo depending of the type of chicken product being imported.

Currently there are no quantitative restrictions on imports of either live poultry and poultry meat (including turkey meat) to Yugoslavia. Import duties for eggs are 5.5-30.5 percent plus 1-1.5 dinars/dozen.

Stocks

AgBelgrade estimates poultry meat ending stocks for 2001 and 2002 are been 1,000 and 2,000 MT each year.

Marketing: A Growth Opportunity for Fresh, Frozen, and Processed Products

There are two specific consumer groups in Yugoslavia- rural and city buyers. Consumers in rural areas (about 60 percent of the Yugoslav population) rarely purchase poultry meat from retailers because they raise their own poultry. The excess poultry meat produced by individuals in rural areas is sold in local markets or in open food markets in metropolitan areas. Consumers in metropolitan areas generally purchase poultry meat in food markets and in small kiosks.

U.S. poultry meat is totally unknown by Yugoslav consumers. AgBelgrade predicts that U.S. chicken meat would be very competitive on the Yugoslav market, provided imports are permitted. Since half of Yugoslav population is surviving on very low incomes of about \$100 a month, lower priced U.S. poultry leg quarters would find immediate demand. There is a general concern, however, among Yugoslavia's consumers that U.S. chicken and turkey meat contain a higher than normal level of hormones. U.S. firms should consider these attitudes when developing their marketing strategies. Domestically, producers have successfully targeted higher income consumers with claims of "hormone, antibiotic and feed-additive free" poultry.

Ninety percent of the domestic chicken meat is sold fresh/chilled while around 10 percent of chicken meat is sold frozen. With the continued increase of Yugoslav incomes, demand for poultry meat, both fresh and frozen, is expected to also increase, which will lead to an increase in imports. If, for example, demand for poultry increases by 1 kilo per capita annually, Yugoslavia's poultry production--in its current capacity and production technology--will not cover the total increase. An increase of this magnitude would require the domestic industry to increase its production by more than 10 percent per year. AgBelgrade expects that domestic supply will not keep pace with increased demand, thus necessitating an increase in imports.

Provided U.S. that Yugoslavia veterinary service will accept USDA export certificates, U.S. poultry will find good opportunities. Marketing of U.S. poultry through promotions, pre-testing and seminars to overcome negative associations with U.S. products will provide benefits to U.S. exporters.

The major competitors of the U.S. poultry meat in the future in this market are Slovenia and Hungary. Willingness to accept longer payment terms (60-90 days) will also be necessary to develop markets in Yugoslavia.

All U.S. potential exporters of poultry meat to Yugoslavia should contact FAS Office Belgrade to receive news on latest development of accepting FSIS Veterinary Certificate by Yugoslav Veterinary Service before making any business arrangements for poultry exports to Yugoslavia.

Montenegro Tests the Water with Independent Customs Code

Montenegro is applying its own customs tariff code, different than the Yugoslav code and much more liberal. The tariff code for poultry meat and products is zero plus 1 percent as customs registration fee. Montenegro is not applying additional customs tax on poultry products.

Montenegrin Veterinary Inspection, does not officially accept USDA/FSIS Export Certificates for import of U.S. poultry meat and products to Montenegro. The Veterinary Service has however, on occasion, accepted derogations to its official policy and allowed importation of U.S. poultry.

Veterinary inspection in Montenegro can allow transit of poultry meat through Montenegro from the port of Bar through Montenegro to Kosovo, Albania and Macedonia, but it is necessary that a U.S. company, before making any shipping arrangements to Bar contact Montenegrin Veterinary Service to a request transit permit.

Total poultry production in Montenegro is based on small poultry farms. Poultry meat from those farms is sold on open food markets, while supermarkets are selling poultry meat and products from Serbian companies and imported from West Europe (Slovenia, Austria, Netherlands). Montenegro is very small market with only 700,000 inhabitants. Poultry meat consumption in Montenegro is 7-8 kilos per annum and total consumption of poultry meat is 4-5,000 per year.

PSD Table Poultry, Meat, Total

PSD Table						
Country:	Yugoslavia					
Commodity:	Poultry, Meat, Total					
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	1	0	2
Production	73	71	71	70	0	75
Whole, Imports	0	0	0	0	0	0
Parts, Imports	6	7	6	8	0	10
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	6	7	6	8	0	10
TOTAL SUPPLY	79	78	77	79	0	87
Whole, Exports	0	0	0	0	0	0
Parts, Exports	1	1	0	1	0	1
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	1	1	0	1	0	1
Human Consumption	78	76	77	76	0	86
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	78	76	77	76	0	86
TOTAL Use	79	77	77	77	0	87
Ending Stocks	0	1	0	2	0	0
TOTAL DISTRIBUTION	79	78	77	79	0	87
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

Import Trade Matrix Poultry Meat, Total

Import Trade Matrix			
Country:		Units:	MT
Commodity:			
Time period:	Jan-De c		
Imports for	2000		2001
U.S.	133	U.S.	0
Others		Others	
Hungary	380	Hungary	507
Slovenia	478	Slovenia	1029
Belguim	663	Belguim	967
Greece	722	Greece	1157
Italy	40	Italy	259
Ireland	0	Ireland	21
Macedonia	83	Macedoni	131
Croatia	38	Croatia	151
Netherlands	1830	Netherlan ds	2726
Germany	933	Germany	52
Total for	5167		7000
Others			
Others not listed	340		42
Grand Total	5640		7042

Prices Table Poultry

Prices Table					
Country:	Yugoslavia				
Commodity:					
Year:	2002				
Prices in (currency)	DIN	per (uom)	1 kilogram		
Year	2000	2001	% Change		
Jan	49.09	115.38	135.0%		
Feb	52.54	119.86	128.1%		
Mar	57.77	128.4	122.3%		
Apr	71.99	136.92	90.2%		
May	78.12	135.39	73.3%		
Jun	77.34	134.44	73.8%		
Jul	77.9	136.95	75.8%		
Aug	86.04	142.76	65.9%		
Sep	103.82	144.06	38.8%		
Oct	120.69	145.49	20.5%		
Nov	123.97	146.99	18.6%		
Dec	119.57	147.36	23.2%		

